

December 1, 2000

Honorable Richard K. Arme
Majority Leader
House of Representatives
Washington, D.C. 20515-6503

Dear Congressman Arme:

This is in reply to the joint letter of October 12, 2000, from the Chairmen of the Senate Committee on the Budget and Committee on Governmental Affairs, the House Government Reform Committee, House Budget Committee and you on Department of Defense (DoD) management challenges. The joint letter requested that we update our previous assessments of the most significant management problems facing the DoD; identify related reports and recommendations; comment on progress being made in resolving significant problems; and identify programs that have had questionable success in achieving results.

The size and diversity of DoD operations makes it difficult to summarize the vast array of management challenges confronting the Department and to determine those of most significance. There are several hundred ongoing management initiatives to address challenges visible at the Office of the Secretary of Defense level and many more being carried out within the Military Departments, Defense Agencies, Joint Staff and Combatant Commands. Similarly, the Department performs a huge number of self-assessments, including well over 200 audit and evaluation reports with about 1,000 recommendations annually from this office. The General Accounting Office also reports extensively on DoD matters. Nevertheless, there are troubling gaps in audit coverage in many areas of the Department, which are caused primarily by resource constraints. Therefore we caution that the limited number of reports and recommendations related to some management problem areas, such as Health Care and Readiness, are not indicative of the actual scope of the challenges in those areas. Despite the lack of comprehensive audit coverage in certain areas, we feel confident in identifying the following principal management challenges:

1. Information Technology Management
2. Information System Security
3. Other Security Concerns

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Abstract This is in reply to the joint letter of October 12, 2000, from the Chairmen of the Senate Committee on the Budget and Committee on Governmental Affairs, the House Government Reform Committee, House Budget Committee and you on Department of Defense (DoD) management challenges. The joint letter requested that we update our previous assessments of the most significant management problems facing the DoD; identify related reports and recommendations; comment on progress being made in resolving significant problems; and identify programs that have had questionable success in achieving results.		
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4. Financial Management
5. Acquisition
6. Health Care
7. Supply Inventory Management
8. Other Infrastructure Issues
9. Readiness
10. Human Capital

These 10 challenges are essentially the same as those we identified last year, except that Turbulence from Change has been broadened to Human Capital. The detailed information that you requested on each area and on poorly performing programs is enclosed. If there are questions, please contact me or Mr. John R. Crane, Director, Office of Congressional Liaison, at (703) 604-8324.

Sincerely,

(signed)

Donald Mancuso
Acting Inspector General

Enclosure

Detailed Response to Congressional
Request of October 12, 2000,
on DoD Management Challenges

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Information Technology Management

The Challenge. The DoD has succeeded in developing the concept of the Global Information Grid, fielding certain key systems like the Global Command and Control System, overcoming the formidable Y2K conversion problem and eliminating redundant in-house data processing capacity. With respect to improving risk management across the board in information system acquisitions, however, it is difficult to see substantive improvement. The separate and ineffective information systems acquisition rules were merged with the standard DoD weapon systems acquisition guidelines and new information system oversight procedures are being implemented, but are unproven. The Department has compiled the central registry of systems required by Section 8121 of the Defense Appropriations Act for FY 2000 and has made the initial Clinger-Cohen Act compliance certifications required under Section 8121 for major systems at acquisition milestones. The IG, DoD, will issue a series of reports over the next several months on the effectiveness of the certification process, which probably will require further refinements. Meanwhile, virtually every audit of a DoD information technology acquisition project indicates serious flaws.

The DoD command, control, intelligence and business functions depend heavily on network based information technologies. This dependence is not bad in itself, since these technologies have enabled dramatic increases in efficiency and capability, but the vulnerabilities created by this dependence must be addressed. In addition to ensuring that new systems are sufficiently capable, secure and interoperable, the DoD must focus over the next several years on the growing problems created by under investment in information technology infrastructure, increased competition for use of the radio frequency spectrum, and severe recruiting, retention and skills maintenance problems in the DoD information technology workforce. We are putting considerable emphasis on audit coverage of the DoD information technology area, including the new Navy/Marine Corps Intranet experiment in adopting seat management on a massive scale, but the fact that DoD has many thousand essential systems and projects makes comprehensive audit coverage infeasible.

Most Significant Recent Reports on Information Technology

D-2000-57, Summary of DoD Year 2000 Computing Issues IV,
12/16/99

D-2000-63, Information Technology Funding in the Department
of Defense, 12/17/99

D-2000-125, Reporting Requirements for Major Automated Information System programs, 5/17/00

D-2000-142, Defense Information Systems Agency's Acquisition Management of the Global Combat Support System, 6/9/00

D-2000-151, Acquisition and Management of the Defense Joint Accounting System, 6/16/00

D-2000-162, Summary of Audits of Acquisition of Information Technology, 7/13/00

Open Recommendations. The most significant open IG, DoD, recommendations on Information Technology Management are as follows:

1. Because the DoD had never conducted a proper acquisition milestone review for the Defense Joint Accounting System (DJAS), we recommended that the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) not approve DJAS for use until the Defense Finance and Accounting Service has demonstrated that the current acquisition strategy will reduce risks, ensure the required functionality for users, and meet DoD acquisition standards and Clinger-Cohen Act requirements. (Report D-2000-151, 6/16/00)
2. To enable senior managers to provide effective oversight, we recommended that the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) implement procedures to verify project status information in Defense Acquisition Executive Summary reports and make full use of those reports to monitor the progress of selected systems. (Report D-2000-125, 5/17/00).
3. To address the serious operational problems created by conflicting requirements for use of the radio frequency spectrum, we recommended that DoD improve coordination with nations hosting U.S. forces; implement centralized management of international telecommunications; and revise system acquisition guidance to identify potential deployment constraints. (Report 99-009, 10/9/98)
4. To achieve better implementation of the DoD Joint Technical Architecture for information technology systems, we recommended that a detailed methodology be developed for cross-organizational and cross-functional coordination of implementation plans. (Report 98-023, 11/18/97)
5. To improve interoperability, we recommended standardizing the message reporting formats for tactical intelligence dissemination. (Report 95-292, 8/17/95)

Closed Recommendations. The most significant recommendations that were recently closed in this area are as follows:

1. To correct problems with controlling sensitive case evidence, the Armed Forces Institute of Pathology implemented a new management information system. (Report 99-199, 4/2/99)
2. To enable better accountability, the White House Communications Agency performed a complete inventory of its telecommunications assets. (Report 96-33, 11/29/95)
3. To avoid Year 2000 conversion problems, the DoD implemented numerous audit recommendations, some of which were closed during the late stages of the conversion period. The official conversion period ended on March 31, 2000. For example, measures to avoid selling or donating non-Y2K compliant biomedical devices were fully implemented and documented toward the end of 1999 and non-compliant items in medical war reserves were identified as recently as early 2000. All Y2K-related actions are now closed. (Multiple reports)
4. To avoid restrictions on training and potential operational problems, the DoD and the Republic of Korea established agreements to avoid frequency spectrum conflicts affecting Army air defense weapons. (Report 98-211, 9/24/98)

Information System Security

The Challenge. Our semiannual report to the Congress for the semiannual period ending March 31, 2000, discussed the growing threat to DoD, other government, and commercial information networks from criminals, vandals, hostile states and terrorists. We reported that, while much effort was being made, the Federal and DoD responses remained disjointed. As of late 2000, there are still numerous policy gaps and much work remains to develop effective coordination mechanisms, especially for national infrastructure protection. The DoD has a robust intrusion detection and reaction capability in place, but most other aspects of the Defense Information Assurance Program are still being developed. Although it was widely assumed that the knowledge and experience gained in the Y2K conversion would be applied to the information security area, there are few signs that has happened.

Most Significant Recent Reports on Information System Security

D-2000-058, Identification and Authentication Policy, 12/20/99

D-2000-122, Information Assurance in the Advanced Logistics Program, 5/12/00

D-2000-124, Information Assurance Challenges: A Summary of Audit Results Reported December 1, 1998, through March 31, 2000, 5/15/00

D-2000-130, Foreign National Access to Automated Information Systems, 5/26/00

D-2001-013, DoD Compliance With the Information Assurance Vulnerability Alert Policy, 12/1/00

Open Recommendations. The most significant open IG, DoD, recommendations related to Information System Security are as follows:

1. To achieve better results from the December 1999 DoD initiative to establish an Information Assurance Vulnerability Alert process, we recommended that the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) issue formal guidance and a detailed implementation plan. We also recommended that certain DoD components, which had not registered in the program database or reported in accordance with DoD direction, take corrective action to ensure consistent and full implementation of the plan. (Report D-2001-013, 12/1/00)

2. To improve controls over access by foreign nationals to DoD information systems and networks in settings such as joint international program offices, we recommended that the Army and Navy revise their regulations related to access to local area networks and other information media. (Report D-2000-130, 5/26/00)
3. To provide more consistency in the Defense Information Assurance Program, we recommended that the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) update, clarify and standardize policy to define security requirements, especially those pertaining to identification and authentication. (Report D-2000-058, 12/20/99)

Closed Recommendations. The most significant of our recently closed recommendations in this area are as follows.

1. To address information assurance vulnerabilities, computer security measures such as defining, controlling and monitoring user access to the Defense Joint Military Pay System were implemented. (Report 96-175, 6/15/00)
2. To improve security, a variety of recommended actions were taken to address vulnerabilities related to the Defense Civilian Pay System. (Reports 99-107, 3/16/99 and 99-128, 6/29/99)
3. To improve security, controls were strengthened for the Defense Property Accountability System. (Report 99-225, 7/29/99)
4. To improve security, a number of recommended controls were implemented for the Standard Automated Materiel System. (Report D-2000-96, 3/7/00)

Other Security Concerns

The Challenge. Although the threats posed by unauthorized intrusions into DoD information systems have received considerable and justifiable attention, a wide range of other security threats confront the DoD. Those threats include terrorism against U.S. personnel and facilities, conducted by either conventional or non-conventional means, and the disclosure or theft of sensitive military technology. The recent terrorist attack on the U.S.S. Cole in Yemen and security breaches at the Department of Energy, the Central Intelligence Agency and DoD graphically demonstrated that security vulnerabilities need to be matters of utmost concern.

Recent audits have indicated that the DoD needs to improve security measures to guard against both internal and external threats. We have not audited force protection issues, but we have extensively reviewed a number of other areas where unacceptable vulnerability exists. These include the Defense Personnel Security Program, which in 1999 was failing badly and allowing hundreds of thousands of overdue security clearance requests to accumulate. The Department took aggressive measures during 2000 to address the problems at the Defense Security Service and the situation has somewhat stabilized. However, much remains to be done to correct past problems and attain a fully effective security clearance program for DoD and contractor personnel. For example, the DoD still lacks a prioritization process for personnel security investigations.

Similarly, there is a consensus in the Executive Branch and Congress that the export license regime of the 1990's was inefficient and probably ineffective in controlling the unintended loss of U.S. military technology. During 2000, the DoD worked with other Federal agencies to streamline the licensing processes and approved additional resources to improve the speed and value of license application reviews. The task of determining to what extent the fundamental national export control policies need to change, however, remains unfinished business for the next Administration and Congress.

It is important to view security as a paramount consideration for virtually all DoD programs and operations. Issues such as properly demilitarizing military equipment before disposal, ensuring that computers being sold or transferred outside the DoD contain no classified material, and controlling the access of contractors and visitors to technical information at military engineering organizations and laboratories all need more attention. We are focusing on those issues in ongoing audit and follow-up efforts.

Enclosure 3

Most Significant Recent Reports and Testimony on Other Security Concerns

Testimony to the Senate Armed Services Committee on National Security Implications of Export Controls and the Export Administration Act of 1999, 3/23/00

D-2000-110, Export Licensing at DoD Research Facilities, 3/24/00

D-2000-111, Security Clearance Investigative Priorities, 4/5/00

Testimony to the Senate Armed Services Committee on Issues Facing the Department of Defense Regarding Personnel Security Clearance Investigations, 4/6/00

Testimony to the Senate Committee on Governmental Affairs on Export Control Implementation issues, 5/26/00

D-2000-134, Tracking Security Clearance Requests, 5/30/00

Report on Allegations of Breaches of Security: Dr. John M. Deutch, 8/28/00

Testimony to the Subcommittee on National Security, Veterans Affairs and International Relations, House Committee on Government Reform, on Defense Security Service Oversight, 9/20/00

D-2001-007, Foreign National Security Controls at DoD Research Laboratories, 10/27/00

D-2001-008, Resources of DoD Adjudication Facilities, 10/30/00

Open Recommendations. The most significant open IG, DoD, recommendations in the area of security matters, other than those issues covered under Information System Security, are as follows:

1. To ensure that the continuing problem of delayed personnel security clearances and clearance updates is not aggravated by insufficient capacity for adjudicating investigative results, we recommended that the Directors and Chiefs of the DoD eight central adjudication facilities determine the resources required, considering all factors that affect the adjudication and appeals processes. We recommended that the Secretaries of the Army, Navy, and Air Force; the Chairman of the Joint Chiefs of Staff; and the Directors of the Defense Intelligence Agency, the Defense Office of Hearings and Appeals, the National Security Agency, and the Washington Headquarters Services provide sufficient resources to adjudicate and process appeals. We recommended that the Assistant Secretary of Defense (Command, Control,

Communications and Intelligence), in conjunction with the eight central adjudication facilities, analyze the impact on workload of the initial fielding of the Joint Personnel Adjudication System. Finally, we recommended that the Under Secretary of Defense (Comptroller) and the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) review the DoD Components' budget submissions to ensure that the DoD budget for FY 2002 and the outyears enables the central adjudication facilities to meet forecasted workload requirements. (Report D-2001-008, 10/30/00)

2. To tighten controls over the release of technical information to foreign visitors to DoD laboratories, we recommended that the Director, Defense Advanced Research Projects Agency, and the Department of the Navy ensure foreign disclosure instructions from foreign visit approval authorities are disseminated to the program managers hosting foreign nationals. We recommended that the Director, Defense Advanced Research Projects Agency, enforce and improve security procedures to ensure visits by foreign nationals are sufficiently documented. We also recommended that the Director, Defense Advanced Research Projects Agency, prepare a manual providing specific procedures for the preparation of Visit Control Center records and ensure the Defense Intelligence Agency visit approval letter is used as the primary source document for information regarding official foreign national visitors. (Report D-2001-007, 10/27/00)
3. To preclude disclosure of sensitive information, we recommended that the hard drives of computers being transferred to non-DoD users or sold be destroyed. (Report of Investigation on Dr. John M. Deutch, 8/28/00)
4. To eliminate the inefficiencies created by the inability of the Defense Security Service (DSS) to track all personnel security requests and provide feedback on their status to requestors during the investigative process, we recommended that DSS take measures to acquire the requisite tracking capability. (Report D-2000-134, 5/30/00)
5. To improve the efficiency of the DoD personnel security clearance investigative efforts, we recommended that the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) implement a process for prioritizing security clearance requests. (Report D-2000-111, 4/5/00)

6. To achieve better compliance with Federal export control regulations requiring "deemed export" licenses for technical information released by DoD to foreign governments, firms or individuals, we recommended that the Under Secretary of Defense for Policy coordinate with the Departments of Commerce and State to develop guidance for applying Federal deemed export licensing requirements and require implementation of that guidance by the Military Departments. In addition, we recommended that the Director, Defense Research and Engineering, coordinate with the Departments of Commerce and State to develop guidance for applying deemed export licensing requirements at DoD research facilities and develop export control procedures to guide DoD research facilities with regard to foreign national visits. We also recommended that the Deputy Under Secretary of Defense (International and Commercial Programs) update DoD instructions to give the Military Departments direct coordination authority with the Department of Commerce for all data exchange agreement annexes. Further, we recommended that the Military Departments update existing guidance to require coordination of data exchange agreement annexes with the Department of Commerce. (Report D-2000-110, 3/24/00)
7. To eliminate several deficiencies, we recommended improvements in guidance, training and data bases related to the export license review process. (Report 99-186, 6/18/99)
8. To achieve better efficiency and enhance confidence in the consistency and competence of decisions made on personnel security clearance investigative results, we recommended implementing a peer review program between adjudication facilities and implementing a professional training certification program for adjudicators. (Report 98-124, 4/27/98)
9. To achieve more efficient, effective and secure practices for handling and disposing of Defense material in the possession of contractors, we recommended changing regulations to require identification of munitions list items early in the acquisition process. (Report 97-134, 4/22/97)

Closed Recommendations. The most significant of our recommendations that were recently closed in this area are as follows:

1. To assure the quality of adjudication of personnel security clearance investigation results, we recommended developing standard training and the Department has done so. The

portion of this recommendation related to certification remains open, however, as indicated in Item 8 above.
(Report 98-124, 4/27/98)

2. To avoid unnecessary investigations and administrative delays, the DoD changed policy to assure reciprocity among DoD special access programs. (Report 98-67, 2/10/98)

Financial Management

The Challenge. The DoD remains unable to comply with the requirements in the Chief Financial Officers Act of 1990 and related legislation for auditable annual financial statements. The results of audits of the DoD-wide and other major financial statements for FY 1999 were essentially the same as in previous years. The Military Retirement Fund statements received a clean audit opinion, but all other DoD financial statements were unauditable. Previous DoD goals for obtaining clean opinions on all or most annual statements during the FY 2000 to FY 2003 timeframe were unrealistic and it is unclear what a realistic goal would be at this point. A few relatively small DoD organizations and funds may achieve favorable opinions in the near future, but the major funds still pose a formidable challenge. The Department also has major concerns that the Federal Accounting Standards Advisory Board could issue guidance that would seriously complicate this challenge.

During the past year, the DoD made reasonable progress in addressing major impediments to favorable audit opinions. Policies were issued to implement various new Federal accounting standards and contractors were engaged to provide their expertise on a variety of issues, such as determining the value of different categories of property. In addition, the Department took steps to apply the lessons learned from the successful DoD Y2K conversion program to the financial system compliance effort. The DoD Senior Financial Management Council, which had not met for several years, was reconstituted to ensure senior management involvement and coordination. The initial milestone to identify the critical systems for financial reporting, March 2000, was unattainable and efforts to define criticality and identify systems continue, but we strongly support this initiative.

The IG, DoD, General Accounting Office (GAO) and Military Department auditors are developing a standard audit approach for validating the progress of the critical systems toward full compliance. Resources permitting, we will seek to provide the same kind of strong support that helped the Y2K conversion to succeed, but the system remediation and validation workload will require considerable contractor support to the components, including the Defense Finance and Accounting Service.

One of the benefits of using the Y2K management approach for financial systems compliance is that it provides good metrics for that particular aspect of the DoD financial management improvement effort. As welcome as those metrics will be for measuring system compliance status, however, they will not measure the financial usefulness of the data to managers and appropriators. Numerous recent statements and testimony to Congress by the Office of Management and Budget (OMB), GAO

and DoD officials have stressed that the ultimate goal of financial management reform legislation is ensuring useful financial information for sound decision-making, not merely clean audit opinions on annual financial statements. We strongly agree. Audit opinions are a simple and readily understandable metric, but judging the usefulness of financial information is far more difficult. Likewise, audit opinions on financial statements provide little insight into the efficiency of functions such as paying contractors or capturing the cost of operations of individual bases and work units. The DoD has long-standing deficiencies in both of those areas.

Most Significant Recent Reports and Testimony on Financial Management

D-2000-69, Department of Defense Agency-Wide Statement of Budgetary Resources, 12/29/99

D-2000-91, Internal Controls and Compliance with Laws and Regulations for the DoD Agency-Wide Financial Statements for FY 1999, 2/25/00

Testimony to the Subcommittee on Government Management, Information and Technology, House Government Reform Committee, on Defense Financial Management, 5/9/00

D-2000-136, Reporting of Performance Measures in the DoD Agency-Wide Financial Statements, 5/31/00

D-2000-139, Controls Over the Integrated Accounts Payable System, 6/5/00

D-2000-156, DoD Payroll Withholding Data for FY 1999, 6/29/00

Testimony to the Task Force on Defense and International Relations, House Budget Committee, on Department of Defense Financial Management, 7/20/00

D-2000-168, Data Supporting the Environmental Liability Line Item on the FY 1999 DoD Financial Statements, 7/27/00

D-2000-172, Accuracy of the FY 1999 Additions, Deletions and Modifications to the Military Departments' Real Property Databases, 8/11/00

D-2000-179, Department-Level Accounting Entries for FY 1999, 8/18/00

D-2000-194, Demographic Data Supporting the DoD Military Retirement Health Benefits Liability Estimate, 9/29/00

Open Recommendations. The most significant open IG, DoD, recommendations related to Financial Management are as follows:

1. To decrease the volume of accounting adjustments made in compiling DoD financial statements and to eliminate unsupported adjustments, we recommended that the Under Secretary of Defense (Comptroller) develop a set of corrective measures as part of the DoD Chief Financial Officers Act Implementation Strategies. (Report D-2000-179, 8/18/00)
2. To improve the accuracy of the estimates included in DoD financial statements for environmental cleanup and hazardous waste disposal liabilities, we recommended that the Deputy Under Secretary of Defense (Environmental Security) revise applicable guidance. (Report D-2000-168, 7/27/00)
3. To ensure better accuracy in withholding required amounts from DoD civilian payrolls, we recommended that the personnel and financial management communities ensure accurate payroll election records and prompt transmission of personnel payroll data; correct errors found by auditors; implement a review system for employee payroll elections; and establish performance measures for assessing the accuracy of payroll withholding data. We also recommended that the Director, Defense Finance and Accounting Service, develop software capable of correctly extracting electronic files that support the withholding amounts reported and implement management control procedures to ensure clear identification and communication of responsibilities. (Report D-2000-156, 6/29/00)
4. To improve the linkage between DoD Government Performance and Results Act reporting and annual financial statements, we recommended that the Under Secretary of Defense (Comptroller) develop consistent program categories, performance goals, and measures; modify the DoD Financial Management Regulation to instruct preparers of the Statements of Net Cost to use program cost elements consistent with performance goals; address requirements for managerial cost accounting systems capable of supporting performance measurement efforts in future versions of the DoD Financial Management Improvement Plan; and include a discussion of performance measures in the Overview section of future DoD Agency-wide financial statements. (Report D-2000-136, 5/31/00)
5. To reduce the volume of disbursements that are not matched to obligation records, we recommended that the Under Secretary of Defense (Comptroller) revise policy to set strict time standards for resolving problem in-transit disbursements. (Report 99-135, 7/20/99)

6. To achieve necessary financial control, we recommended a complete reconciliation of the National Guard and Reserve Equipment Appropriation by the National Guard Bureau, which subsequently transferred its accounting function to the Defense Finance and Accounting Service. (Report 99-087, 2/24/99)
7. To reduce the possibility of an Antideficiency Act violation and comply with DoD policy, we recommended that the National Guard Bureau establish administrative obligations for overage unmatched disbursements in its Army accounts. (Report 98-30, 12/3/97)
8. To facilitate accurate billing for U.S. military expenses that will be reimbursed by the United Nations, we recommended Under Secretary of Defense (Comptroller) actions to define the cost elements to be considered and revise regulations accordingly. (Report 97-77, 1/27/97)
9. To improve the accuracy of Navy accounting data, we recommended that performance measures be established to track compliance with policy to record obligations within 10 days. (Report 96-145, 6/6/97)
10. To improve financial control of DoD contracts, we recommended that the Defense Finance and Accounting Service make a concerted effort to reduce the backlog of unreconciled contracts to the equivalent of six-months work at Columbus Center. (Report 96-141, 6/4/96)
11. To eliminate incorrectly distributed Combined Federal Campaign deductions, we recommended that the Defense Finance and Accounting Service make procedural and payroll system changes. (Report 95-244, 6/21/95)
12. To ensure accurate billing to Foreign Military Sales Customers, we recommended that the Under Secretary of Defense (Comptroller) revise regulations on how to calculate packing, crating and handling costs. (Report 91-055, 2/27/91)

Closed Recommendations. The most significant of our recommendations in this area that were recently closed are as follows:

1. To apply lessons learned from the successful DoD Year 2000 Conversion to the challenge of improving the nearly 200 information systems used to compile DoD financial statements, DoD has adopted essentially the same management approach. (Report D-2000-41, 11/26/99)

2. To improve financial reporting related to DoD real property, the Chief Financial Officer revised regulations to specify what supporting documentation must be retained to validate the cost of acquiring, constructing or improving that category of assets. (Report 99-243, 8/27/99)
3. To improve internal controls, the Defense Finance and Accounting Service issued written guidance for journal voucher entries on financial records. (Report 98-50, 1/20/98)
4. To improve the reliability of contingency liability amounts shown on DoD financial statements, DoD issued guidance requiring the verification, validation and accreditation of computer models used to compute "cost to complete" estimates for the Defense Environmental Restoration Program. (Report 99-209, 7/9/99)

Acquisition

The Challenge. The DoD is working toward the goal of becoming a world-class buyer of best value goods and services from a globally competitive industrial base. The Department hopes to achieve this transformation through rapid insertion of commercial practices and technology, business process improvement, creating a workforce that is continuously retrained to operate in new environments, and heavily emphasizing faster delivery of material and services to users. In order to fulfill these objectives, the DoD has initiated an unprecedented number of major improvement efforts, including at least 40 significant acquisition reform initiatives.

Despite the previous successes and continued promise of reforms, the business of creating and sustaining the world's most powerful military force remains expensive and vulnerable to fraud, waste and mismanagement. In FY 1999, the DoD bought about \$140 billion in goods and services, in 14.8 million purchasing actions, which means 57,000 purchasing actions on an average working day. Statistics for FY 2000 are not yet available, but will be similar. The scope, complexity, variety and frequent instability of Defense acquisition programs pose particularly daunting management challenges. No major acquisition cost reduction goals have yet been achieved and the results of most of the specific initiatives are still to be determined, particularly since many have not yet been fully implemented and are in a developmental or pilot demonstration phase.

In the rush to streamline and incorporate commercial practices and products, the Department cannot compromise its insistence on quality products and services at fair and reasonable prices. An inherent challenge throughout the Department's acquisition reform effort is ensuring that critically needed controls remain in place and there is proper oversight and feedback on new processes. Recent audits continued to indicate a lack of effective means for identifying best commercial practices and adapting them to the public sector; overpricing of spare parts; inattention to good business practices and regulations when purchasing services; poor oversight of the several hundred medium and small acquisition programs; and adverse consequences from cutting the acquisition workforce in half without a proportional decrease in workload.

It should be axiomatic that each reform initiative needs periodic evaluation, based on quantifiable performance measures, and fine-tuning. There is a tendency, however, for initiatives to be put into place without explicit provision for periodic and objective review. For example, in 1994 the DoD mandated the use of an open systems approach in the acquisition process to reduce the cost of ownership of weapons systems while increasing

competition, interoperability and useful life. We reported in June 2000 that, of 17 major weapon acquisition programs approved at key development milestones between March 1996 and July 1999, 14 programs lacked clearly defined open system design objectives or a strategy for achieving such objectives. In addition, DoD guidance did not require program managers to assess the impact of a given level of design systems. The problems in implementing this particular initiative are typical of those to be expected in mandated reforms that may not be adequately understood, fully supported or enforced over time.

Although the DoD must continue to address the challenge of how to control the cost of purchased goods and services, the most fundamental acquisition issues confronting the Department relate to requirements and funding. The expanding national dialogue on military missions, the pending Quadrennial Defense Review and the ideas of a new administration and Congress could significantly alter DoD missions, military force structure and acquisition requirements. Whether changes in requirements are major or minor, there needs to be a far-reaching rebalancing of acquisition programs to match available funding. In addition, it does not appear that measures taken during the 1990's to provide more stability in acquisition program funding were effective.

Finally, we believe that the Department needs to put more acquisition reform emphasis on ensuring the quality, serviceability and safety of purchased equipment, parts and supplies. Concentrating on prices and timely delivery is vital, but quality should be the most important attribute for DoD purchases, especially for materiel used by the warfighters.

Most Significant Recent Reports on Acquisition

D-2000-65, Costs Charged to Other Transactions, 12/27/99

D-2000-79, Summary of DoD Process for Developing Quantitative Munitions Requirements, 2/24/00

D-2000-88, DoD Acquisition Workforce Reduction Trends and Impacts, 2/29/00

D-2000-100, Contracts for Professional, Administrative and Management Support Services, 3/10/00

Testimony to Subcommittee on Government Management Information and Technology, House Committee on Government Reform, on Defense Acquisition Management, 3/16/00

D-2000-105, Contracting for Anthrax Vaccine, 3/22/00

Testimony to Senate Armed Services Committee on Defense Acquisition, 4/26/00

D-2000-149, Use of an Open Systems Approach for Weapon Systems, 6/14/00

D-2000-174, V-22 Osprey Joint Advanced Vertical Aircraft, 8/15/00

D-2000-187, The Low-Rate Initial Production Decision for the Joint Biological Point Detection System, 9/11/00

D-2000-192, Results of the Defense Logistics Agency Strategic Supplier Alliance for Catalog Items, 9/26/00

D-2001-004, Disposal of Excess Government-Owned Property in the Possession of Contractors, 10/13/00

D-2001-12, Acquisition of the Armored Medical Evacuation Vehicle, 11/22/00

Open Recommendations. The most significant open IG, DoD, recommendations on Acquisition are as follows:

1. To provide better oversight of weapon system acquisition programs, the Department of the Army should designate the Army Acquisition Executive, not lower ranking officials, as the Milestone Decision Authority for Acquisition Category II programs. (Report D-2000-187, 9/11/00)
2. To improve implementation of DoD policy on using open weapon system design approaches, we recommended that the Under Secretary of Defense (Acquisition, Technology and Logistics) enforce the requirement that program managers fully consider the use of open system design techniques. We also recommended that program managers be required to include open system objectives in test and evaluation master plans and to demonstrate their open system approach at milestone decisions. Additionally, we recommended that the Joint Task Force provide program managers with general templates for inserting open systems design language in the key acquisition planning documents and provide guidance to help program managers document the means for determining the extent of system design openness. (Report D-2000-149, 6/14/00)
3. To address widespread deficiencies in contracting practices in contracts for services, we recommended that the Deputy Under Secretary of Defense (Acquisition Reform) develop training on defining requirements for contracts for professional, administrative and management support services; train contracting and program personnel in the

award and administration of contracts for these services; and emphasize, in that training, the need to avoid the kinds of deficiencies noted in our audit report. We also recommended that Senior Acquisition Executives for the Army, Navy, and Air Force establish centers of excellence with trained and experienced personnel that can be used by acquisition personnel when procuring services, make all acquisition personnel aware of the problems identified in our report, and develop a time-based plan with goals and performance measures to determine improvements in the acquisition of professional, administrative and management support services. (Report D-2000-100, 3/10/00)

4. To decrease the risk of continued overpricing of spare parts on sole-source contracts when certified cost or pricing data are not obtained, we recommended that the Defense Logistics Agency attempt to expand its successful strategic supplier approach. (Report D-2000-098, 3/8/00)
5. To address the systemic problems indicated in numerous audit reports on DoD processes for determining munitions requirements, we recommended that the Under Secretary of Defense (Acquisition, Technology and Logistics) and the Joint Staff designate a central authority for updating guidance and overseeing its implementation. The oversight responsibility must extend to assessing and validating the currency of planning scenarios and munitions utilization factors used to quantify requirements. (Report D-2000-079, 2/24/00)
6. To improve management of agreements other than contracts and grants for prototype projects, we recommended that the Directors, Defense Research and Engineering and Defense Procurement, issue "other transaction" guidance in DoD directives, instructions, or regulations. The guidance should preclude the use of Government-funded research as contractor cost share; provide for reasonable use charge of contractor assets; identify how to design an access to records clause; identify the roles and responsibilities of the Defense Contract Audit Agency; provide agreement officers' training on the effects of independent research and development reimbursement on contractor cost share; require agreement officers to inform the administrative contracting officer and the Defense Contract Audit Agency of the award of an other transaction for their review for potential inconsistent accounting treatment of cost shares; and require contractors to use DoD-approved overhead rates when available. In addition, reports to Congress for other transactions should show the effect of independent research and development reimbursements on contractor cost share. (Report D-2000-065, 12/27/99)

7. To address issues related to the impact on competition of using multiple award task order contracts, we recommended that the Director, Defense Procurement, reconsider the need for a guaranteed minimum for every contract awardee and issue additional guidance. (Report 99-116, 3/31/99)
8. To avoid overpricing, we recommended a variety of Defense Logistics Agency contracting actions. (Report 99-026, 10/30/98)
9. To determine whether legal violations occurred in the procurement of certain clothing and textiles, we recommended a series of Anti-Deficiency Act investigations, which will entail an Office of General Counsel determination on whether Buy American Act and Berry Amendment restrictions apply to DoD purchases of commercial items. (Report 99-023, 11/1/99)
10. To ensure proper controls, we recommended the issuance of revised guidance on requesting waivers from weapon system live fire testing and on identifying candidates for testing. (Report 97-214, 9/9/97)
11. To achieve a more effective program for acquiring foreign weapons and other material for testing, we recommended that the Under Secretary of Defense (Acquisition, Technology and Logistics) issue new prioritization guidance. (Report 97-133, 4/21/97)
12. To revitalize the Value Engineering Program, we recommended that the Under Secretary of Defense (Acquisition, Technology and Logistics) issue new guidelines on using Value Engineering and reporting savings. (Reports 97-121, 4/9/97 and 97-3, 10/9/96)

Closed Recommendations. The most significant of our recently closed recommendations in this area are as follows.

1. To enable evaluation of the impact of emphasizing the procurement of more commercial items, the Defense Logistics Agency (DLA) collected price trend data from the inventory control points. The Military Departments need to emulate DLA so that the DoD and Congress have reliable information on the outcome of acquisition reforms. (Report 98-88, 3/11/98)
2. To improve coordination and management control, the Military Departments and Ballistic Missile Defense Organization issued guidance on management of aerial target systems. (Report 92-20, 12/31/91)

3. To achieve cost reductions, the Theater High Altitude Area Defense Program implemented a multi-year procurement strategy and component breakout for competition. (Report 96-14, 10/23/95)
4. To avoid problems with Foreign Military Sales customers, regulations were changed to require longer records retention periods after case closure. (Report 95-304, 9/11/95)

Health Care

The Challenge. The Military Health System (MHS) costs over \$16 billion annually and serves approximately 8.2 million eligible beneficiaries through its health care delivery program, TRICARE. TRICARE provides health care through a combination of direct care at Military Department hospitals and clinics and purchased care through managed care support contracts. The MHS has dual missions to support wartime deployments (readiness) and provide health care during peacetime.

The MHS faces three major challenges: cost containment, transitioning to managed care, and data integrity. These challenges are complicated by the inadequate information systems available to support the MHS.

Cost containment within the MHS is challenged by the continued lack of good cost information combined with significant levels of health care fraud. Lack of comprehensive patient-level cost data has made decisions regarding whether to purchase health care or to provide the care at the military treatment facility more difficult. Recent legislation, which expands medical benefits for military retirees to include pharmaceuticals, will entail considerable program growth in an area where cost control has been difficult. Past audits have questioned the efficiency of duplicative pharmaceutical procurements by DoD and the Department of Veterans Affairs.

Data integrity in management information systems has been a persistent problem that affects both health care program effectiveness and efficiency. The lack of complete and accurate data has resulted in an inability to clearly identify health care costs, identify unit and individual readiness for deployment, or coordinate direct health care with purchased health care. The DoD management has put considerable emphasis on improved data quality and significant progress is being made.

To combat health care fraud, the Defense Criminal Investigative Service has developed an active partnership with the TRICARE Management Activity to give high priority to health care fraud cases, which comprise a growing portion of the overall investigative workload. As of September 30, 2000, we had 521 open criminal cases in this area.

Transitioning to managed care is a critical element in peacetime health care delivery. The issue is complicated by a lack of understanding about TRICARE, multiple TRICARE programs offering similar but not identical benefits, and increased focus on providing peacetime health care to the aging retiree population. An audit of the TRICARE marketing program in 1999 showed that,

while the level of beneficiary understanding of TRICARE was increasing, DoD had provided Service members with incomplete, incorrect, or inconsistent information. In addition, with increased base and hospital closures and military downsizing, more and more older beneficiaries (those eligible for Medicare but not DoD-purchased health care) find themselves without accessibility to direct care resources. Attempts to address that problem have led to a proliferation of health care demonstration programs that have further confused the eligible population.

Most Significant Recent Reports and Testimony on Health Care

Testimony to the Subcommittee on Oversight and Investigations, House Committee on Veterans Affairs, on Procuring Pharmaceuticals for the Department of Defense, 5/25/00.

Open Recommendations. Audit coverage has been severely limited in the area of Health Care for the past several years. The most significant open IG, DoD, recommendations on this subject are as follows:

1. To improve user acceptance of TRICARE, we recommended issuing clear requirements for a comprehensive national TRICARE marketing program. (Report 00-016, 10/21/99)
2. To avoid duplicate payments for care provided in medical treatment facilities to retired individuals enrolled in Medicare health maintenance organizations, we recommended that DoD and the Department of Health and Human Services develop a strategy and propose any necessary legislation. (Report 99-152, 5/28/99)
3. To achieve greater efficiency and lower costs in procuring pharmaceuticals, we recommended that the DoD and Department of Veterans Affairs merge their procurement processes. (Report 98-154, 6/15/98)
4. To address deficiencies in medical war reserves in Korea, we recommended completing a Medical Logistics Interservice Support agreement. (Report 97-170, 6/16/97)

Closed Recommendations. The most significant of our recently closed recommendations in this area are as follows.

1. To enable better management of DoD graduate medical education programs, system changes have been implemented to provide good cost visibility. (Report 97-147, 5/23/97)

2. To eliminate discounts that had the effect of encouraging smoking and driving up DoD health care costs, policy was issued to make commissary and exchange retail prices for tobacco products consistent with commercial prices.
(Report 97-60, 12/31/96)

Supply Inventory Management

The Challenge. Supply management to support U.S. military forces, which are located around the world and use several million different types of weapon systems, other equipment, spare parts, fuel, apparel, food items, pharmaceuticals and other supplies, may be the most difficult logistics challenge in the world. Despite the clear need to modernize DoD supply operations, it should be noted that U.S. military logistics performance has been excellent in demanding situations such as the Gulf War and the numerous recent deployments to comparatively remote areas of the world.

Every facet of supply management involves challenges and it is critically important to recognize that weapon systems and other equipment must be designed, selected and procured with logistics support as a paramount concern. The use of standardized parts, commercial items, non-hazardous materials and easy to maintain components will considerably ease the supply support problem for each system or piece of equipment. Conversely, inattention to such factors during acquisition will increase the risk of higher costs and logistics failures. The logistics community relies heavily on program managers and operators to help forecast supply requirements, and historically this has been very difficult. The Department has been justifiably criticized for accumulating excessive supply inventories, but supply shortfalls are at least as great a concern due to the impact on readiness. Current logistics reform initiatives are principally focused on introducing private sector logistics support practices, which in turn are based on applying web-based technology. The DoD has initiated a myriad of logistics improvement initiatives, most of which are still in early stages. We anticipate continuing valid concerns about all phases of supply support, including requirements determination, procurement, distribution, and disposal.

Most Significant Recent Reports on Supply Inventory Management

D-2000-086, Assuring Condition and Inventory Accountability of Chemical Protective Suits, 2/25/00

D-2000-113, Required Delivery Dates in Requisitions for Secondary Items of Supply Inventory, 4/19/00

D-2000-147, DoD Pilot Program for Shipment of Personal Property - Military Traffic Management Command Reengineering DoD Personnel Property Program Pilot, 6/12/00

D-2000-171, Reacquisition of Surplus Materiel by the Defense Logistics Agency, 8/9/00

D-2000-185, Allegations to the Defense Hotline Concerning Management of Obsolete Repairable Items, 9/7/00

D-2001-2, Defense Logistics Agency Customer Returns Improvement Initiative Program, 10/12/00

D-2001-4, Disposal of Excess Government-Owned Property in the Possession of Contractors, 10/13/00

Open Recommendations. The most significant open IG, DoD, recommendations in the area of Supply Inventory Management are as follows:

1. To ensure that poor quality materiel identified by users is removed from active inventory and other appropriate action is taken, we recommended that the Defense Logistics Agency fully implement the Customer Returns Improvement Initiative Program at all distribution depots. (Report D-2001-002, 10/12/00)
2. Military units and other organizations designate Required Delivery Dates (RDD) on supply requisitions. To improve the appropriate use of RDD information by personnel involved in preparing or filling supply requisitions, we recommended that the Assistant Deputy Under Secretary of Defense (Supply Chain Integration) streamline the number of RDD categories. We recommended that the Department of the Army improve awareness of the importance of RDD, streamline rules for their use, and provide training. We also recommended Defense Logistics Agency and Army actions to implement automated edit of RDD. (Report D-2000-113, 4/19/00)
3. To reengineer the DoD property disposal process, we recommended a comprehensive reworking of management controls for all facets of the disposal process, which should result in a plan addressing controls, training, management information and performance measurement. (Report 99-029, 11/31/98)
4. To improve efficiency, we recommended that there be standard DoD-wide procedures for contractors to report the return of repairable assets from DoD users to contractor repair facilities. (Report 97-014, 11/1/96)
5. To improve asset management, we recommended that the Services take measures to enhance the visibility that Primary Inventory Control Activities have over materiel at the Secondary Inventory Control Activities, so that purchases of items already in stock are minimized and good redistribution decisions are feasible. (Report 95-303, 9/1/95)

Closed Recommendations. The most significant of our recommendations that were recently closed in this area are as follows:

1. To accelerate the disposal of obsolete material in the Defense National Stockpile, the Defense Logistics Agency developed an aggressive sales strategy that increased sales from \$446 million in FY 1999 to \$670 million in FY 2000. (Report 99-044, 12/3/98)
2. To eliminate under charging Foreign Military Sales customers with Cooperative Logistics Supply Support Arrangements, the Military Departments addressed 99 percent of the \$140 million in under billing identified by auditors. (Report 95-31, 11/21/94)

Other Infrastructure Issues

The Challenge. Despite numerous management initiatives to reduce support costs so that more funds could be applied to recapitalizing and ensuring the readiness of military forces, more can and should be done. The number of bases and other installations remains excessive, justifying at least one more round of base closures and realignments. Organizations throughout the Department need to continue reengineering their business processes and striving for greater administrative efficiency.

Unfortunately, cutting support costs can easily become counterproductive if the quality of support services and facilities is degraded. In addition, there are numerous bona fide requirements in the support area that will be expensive to address. For example, the DoD urgently needs to replace at least one third of its housing units over the next few years. The resulting \$30 to \$40 billion cost will compete in the budget against other recapitalization needs. Finally, DoD has one of the largest environmental restoration programs in the world and this area is particularly challenging in terms of cost containment and compliance with continually evolving laws and regulations. During the past year, incidents such as the outcry in Korea over the spill of chemicals from a U.S. facility have underscored the growing international dimension of the DoD environmental challenge.

Most Significant Recent Reports on Other Infrastructure Issues

D-2000-121, Hazardous Material Management for Major Defense Systems, 5/4/00

D-2000-127, Program Management of the Materials and Processes Partnership for Pollution Prevention, 5/22/00

D-2000-157, DoD Hazardous Waste Management and Removal Services in the U.S. European Command, 6/28/00

D-2000-170, Disposal of Range Residue, 8/4/00

D-2000-175, Defense Information Systems Agency Right-Sizing Plan for Regional Support Activities, 8/15/00

Open Recommendations. Significant open recommendations in this area include the following:

1. To address hazardous conditions related to munitions residue on DoD training and test ranges, we recommended 25 actions in Report 97-213, 9/5/97. A follow-up audit indicated

little or no action on 10 of those 25 agreed-upon recommendations, which we have reiterated. (Report 2000-170, 8/4/00)

2. To control the risk of poor performance by environmentally hazardous waste disposal contractors for U.S. European Command components, we recommended a variety of actions by the Military Departments and the Defense Logistics Agency. (Report D-2000-157, 6/28/00)
3. To ensure close attention to weapon system life cycle costs driven by hazardous material handling and disposal requirements, we recommended that acquisition program managers comply fully with DoD policies encouraging focus on those requirements early in the acquisition cycle. (Report D-2000-121, 5/4/00)
4. To establish a more reliable process for estimating unaccompanied personnel housing requirements, we recommended using a standard form and methodology. (Report 99-239, 10/8/99)
5. To address problems in assessing family housing requirements, we recommended developing a standardized process. (Report 98-6, 10/8/97)
6. To improve efficiency, we recommended enhanced systems and controls for the DoD Personal Property Shipment and Storage Program. (Report 97-175, 6/23/97)

Closed Recommendations. The most significant of our recommendations in this area that were recently closed are as follows:

1. To calculate future unaccompanied enlisted personnel housing requirements more accurately, the Navy adjusted its computer model and related guidance to reflect the new barracks construction standard. (Report 98-80, 2/23/98)
2. To eliminate environmental hazards caused by lead contamination, the Army Reserve closed its indoor firing ranges and the Army National Guard took steps to reduce risks. (Report 98-170, 6/30/98)
3. To avoid friction with the host government and protect U.S. personnel from personal liability in environmental disputes, the Army developed training on the implications of the 1993 Supplementary Status of Forces Agreement with Germany. (Report 99-251, 9/15/99)

Readiness

The Challenge. Concern about the readiness of U.S. military forces was a principal issue in congressional hearings and was addressed during the Presidential election campaign. There is a fairly broad consensus that readiness shortfalls exist, although the extent of impairment to mission capability is more contentious. Clearly, there are spare parts shortages; significant backlogs for depot maintenance (\$1.2 billion) and real property maintenance (\$27.2 billion); concerns related to recruiting, retention and morale; disproportionately numerous deployments for some units; unanticipatedly high operating tempo; and equipment availability problems. The DoD and Congress have made budget adjustments and military entitlements have been expanded. The Department's readiness posture ultimately depends, however, on the effectiveness of hundreds of support programs, which range from training to supply management.

The DoD audit community supported the successful program to overcome the Year 2000 computer challenge, which the Department considered to be a major readiness issue, with the largest audit effort in DoD history. The IG, DoD, issued 185 "Y2K" reports. Due to that massive commitment, resource constraints and other workload, our recent coverage of other readiness issues was severely limited. We plan to restore at least some of the necessary coverage during FY 2001, continuing our particular concentration on chemical and biological defense issues.

Most Significant Recent Reports and Testimony on Readiness

D-2000-086, Assuring Condition and Inventory Accountability of Chemical Protective Suits, 2/25/00

Testimony to Subcommittee on National Security, Veterans Affairs and International Relations, House Committee on Government Reform, 6/21/00

Open Recommendations. The most significant open recommendations related to Readiness are as follows:

1. To ensure that war reserves are adequate to support medical material requirements in a dual major war contingency, we recommended a comprehensive review of DoD surge capacity and measures to ensure the availability of medical items. (Report 99-201, 10/26/99)

2. To ensure that communications capacity is adequate to support military requirements, we recommended better monitoring of leased commercial satellite capacity and more intensive planning for various scenarios requiring mixes of DoD-owned and commercial satellite support. (Report 99-111, 3/26/99)
3. To improve chemical and biological defense capability in the European Command, we recommended various measures to address equipment and training deficiencies. (Report 99-102, 3/4/99)
4. To improve chemical and biological defense capability in the Pacific Command, we recommended various measures to address shortfalls in planning and preparedness. (Report 99-045, 12/31/98)
5. To improve unit level chemical and biological defense, we recommended better readiness assessments and improved training. (Report 98-174, 7/17/98)
6. To improve readiness, we recommended that the Air Force reactivate reporting procedures to monitor survivability and serviceability of mission-critical equipment in contaminated environments. (Report 97-217, 9/19/97)
7. To ensure adequate wartime support, we recommended that the Under Secretary of Defense for Policy establish better management controls for international defense support agreements. (Report 97-173, 6/23/97)
8. To optimize the value of military training, we recommended revising DoD policies to ensure intensive evaluation of the effectiveness of simulation training. (Report 97-138, 4/30/97)
9. To improve contingency planning, we recommended improvements in planning for fuel requirements for U.S. Forces Korea and actions to address shortfalls in personnel, equipment and infrastructure. (Report 97-021, 11/6/96)
10. To improve confidence in chemical protective masks, we recommended aggressive surveillance testing and emphasis on preventative maintenance. After tests confirmed the reliability problems identified by auditors in 1994, the Services agreed in 1999 to take vigorous measures. (Report 95-021, 11/2/94)

Closed Recommendations. Our most significant recommendations in this area that were recently closed are as follows:

1. To reacquire good inventory control over sensitive chemical defense equipment, the Defense Logistics Agency completed a wall-to-wall inventory of chemical protective suits. (Report D-2000-086, 2/25/00)
2. To improve readiness, the Navy revised physical fitness test standards for Reservists. (Report 99-113, 6/24/99)
3. To avoid mobilization problems encountered in the past, the Reserve Components strengthened their processes for ensuring that Family Care Plans for Reservists are fully adequate. (Report 98-142, 6/1/98)
4. To address deficiencies, the U.S. Forces Korea took measures to ensure adequate levels of personnel and equipment support for ammunition distribution. (Report 98-117, 4/23/98)
5. To address long-standing readiness problems, the Army, Navy and Air Force implemented chemical protective mask surveillance testing programs. (Reports 94-154, 6/30/94; 95-021, 11/2/94; and 99-061, 12/24/98)

Human Capital

The Challenge. Like most government organizations, DoD faces a range of serious personnel management issues. These include:

1. The deep cuts in both the military force structure and the civilian workforce after the end of the Cold War were not accompanied by proportionate reductions in numbers military force deployments or in civilian workload. On the contrary, as discussed in Enclosure 9, military operating tempo has been very high and there have been indications of morale problems among both military and civilian personnel. Among the negative effects of downsizing are increased retention problems because of slow promotions and overworked staffs, recruiting problems and skills imbalances. Our February 2000 report on the impact of cutting the DoD acquisition workforce in half was received with considerable interest by both the DoD and Congress. We were gratified by that concern and hope that all decisions on any additional workforce sizing will be underpinned by careful analysis of workload and realistic productivity projections.
2. The current DoD civilian workforce is largely composed of "baby boomers" and the average age in many organizations is nearly 50. The DoD must replace the bulk of its management as they retire over the next five years. There are serious questions about the availability of enough sufficiently trained and talented individuals to fill the likely management vacancies occurring across the spectrum of DoD organizations.
3. The pervasiveness of information technology in all facets of DoD activities and the rapid evolution of business practices necessitate a much more effective and aggressive approach to personnel training, especially for DoD civilians. The concepts of mandatory training certifications to ensure a good group of core competencies and programs of continuing professional education have caught hold. It will be a continuing challenge, however, to provide meaningful training in flexible ways that enable individuals to keep up to speed in their professional fields.
4. The Congress has provided special authority to the DoD so that the Department can break out of the strictures of antiquated and frustrating Federal personnel rules and set up innovative, more agile civilian personnel systems. The DoD acquisition community will lead this effort. The remainder of the Department will continue to be constrained in terms of flexibility in staffing and compensation matters until it also receives special authority or general reforms are enacted.

5. Although the recent problems in meeting military recruiting goals abated in FY 2000 and the Congress approved significant compensation increases, the trends in recruiting and retaining high quality military and civilian personnel bear close watching. Competition from the private sector for skilled and high potential individuals likely will remain intense.

Most Significant Recent Reports on Human Capital

D-2000-88, DoD Acquisition Workforce Reduction Trends and Impacts, 2/29/00

D-2000-101, Military Environment With Respect to the Homosexual Conduct Policy, 3/16/00

D-2001-008, Resources of DoD Adjudication Facilities, 10/30/00

Open Recommendations. Numerous IG, DoD, reports contain recommendations related to training, but it is difficult to identify them. In general, the Department has done fairly well in responding to recommendations that address training. Some exceptions are listed in Enclosure 5. Other significant open recommendations on Human Capital are as follows:

1. To correct deficiencies in staffing joint organizations, we recommended that the DoD Directive on joint manpower management, which had been in coordination since 1989, be issued. (Report 96-029, 11/29/95)
2. To help develop a more effective and justifiable DoD random drug testing program for civilian employees, we recommended providing managers with flexibility to determine minimum testing rates. (Report 99-64, 12/31/98)
3. To ensure sufficient staffing of DoD personnel security clearance adjudication organizations, we recommended that their requirements be reassessed in light of growing workload. (Report D-2000-8, 10/30/00)

Closed Recommendations. The most significant of our recommendations in this area that were recently closed are as follows:

1. To protect Service members from fraudulent or unscrupulous insurance solicitations, an action plan was implemented. (Report 99-106, 3/10/97)
2. To ensure that military and civilian employees assigned to congressional offices are aware of and comply with pertinent DoD policies, new guidance was issued. (Report 97-186, 7/14/97)

3. To implement requirements of the Defense Officer Personnel Management Act, the Army finally issued a regulation pertaining to pay and entitlements for medical officers. (Report 93-72, 3/22/93)
4. To improve the timeliness of military disability discharge review procedures, the Services made numerous process improvements. These changes are estimated to have saved \$67 million and should provide better assurance of fair results. The Army has reduced processing time by over 50 percent. (Report 92-100, 6/8/92)

Programs with Questionable Results

1. The Defense Personnel Security Program has failed to ensure timely and high quality personnel security investigations. Although progress is being made in stabilizing the situation, it probably cannot be completely turned around in less than a few years. Acquisition of the Case Control Management System by the Defense Security Service was poorly managed, contributing to the problem. (Reports D-2000-134, 5/30/00 and D-2000-111, 4/5/00)
2. The DoD is still unable to compile auditable financial statements for the Department as a whole and for all but one of its component reporting entities. The principal problem is the lack of good information systems. Although progress toward compliance with new Federal accounting standards is being made, the pace is slow and full compliance is unlikely for several more years. Beginning with implementation of a new management approach during FY 2000, DoD is now handling the systems-improvement part of this effort as a formal program. The initially established milestones have significantly slipped and it is unclear whether the cost of attaining favorable audit opinions on multiple DoD reporting entities will be affordable. (Report D-2000-091, 2/25/00)
3. The Defense Information Assurance Program is still under development and widespread vulnerabilities remain, although progress has been made in some areas such as intrusion response. Program performance measurement criteria for DoD and other Federal information assurance efforts need definitization before results can be assessed consistently. (Reports D-2000-058, 12/20/99 and D-2000-124, 5/15/00)
4. Attempts to develop equitable business arrangements with sole-source providers of commercial products have had generally poor results, although there have been recent successes that could be models. (Report D-2000-192, 9/26/00 and others)
5. The Department's initiative to vaccinate all military personnel against anthrax proved to be unexecutable, due primarily to the inability of the sole-source vaccine manufacturer to gain Food and Drug Administration approval for its production facility and processes. (Report D-2000-105, 3/22/00)

6. Export license review procedures have been cumbersome, inefficient and probably ineffective. A process reengineering effort is underway and special arrangements with certain allies are being negotiated, but the degree of improvement in the process remains uncertain. (Reports 99-186, 6/18/99 and D-2000-110, 3/24/00)

Broad Scope Documents Used in this Analysis

In addition to the reports listed in the discussion of each problem area, the following recent reports and testimony contain useful information applicable to multiple areas.

1. Deputy Secretary of Defense Management Control Assurance Statement for Fiscal Year 1999.
2. IG, DoD, Semiannual Report to the Congress for the Period April 1, 2000, to September 30, 2000. Appendix A of the semiannual report lists all DoD internal audit reports by issue area. Chapter One discusses DoD high risk areas and Chapter Two provides information on different categories of oversight activity, including audits and investigations. Each semiannual report also discusses at least one focus area. For this report, the focus area was Environmental Programs. (Release of this report was still pending as of November 30, 2000.)
3. IG, DoD, Semiannual Report to the Congress for the Period October 1, 1999, to March 31, 2000. The focus area was Information Assurance.
4. Deputy IG, DoD, Testimony before the House Budget Committee on Defense Management Challenges, February 2000.